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Editor's Notes: Opinion Shopping

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In its Release 33-6594, the Securities and Exchange Commission has requested public comment on an issue called "opinion shopping." When a corporation registered with the SEC shops around for an auditor who will give an opinion that supports the registrant's reporting objectives and those objectives are not in accordance with GAAP, the situation is called opinion shopping.

Second Opinion

Seeking a second opinion may or may not be related to opinion shopping. Obtaining a second opinion is considered desirable in the medical field; however, in accounting it is viewed with much skepticism. Accounting is considered an art and the broad guidelines of GAAP do not provide an exact answer for all situations—particularly as new types of transactions and events arise. Management may honestly want another opinion on how to handle a transaction with no consideration for changing accountants.

If, however, management uses a second opinion as a means to influence the current accountant to produce what management desires, or lose the client, then an undesirable situation exists. Seidman and Seidman calls this "repugnant."

Independence

A change in auditor, when such change has been preceded by disagreements, may cast suspicion of bias on the new auditors. Any such perception of bias by the public for an auditor to succumb to client pressure casts doubt upon the auditor's independence. An auditor who appears biased will lack independence if not, in fact, in the minds of the public.

If the registrant has shopped for an auditor willing to bow to the client's wishes and the results are materially misleading financial statements, both the registrant and the auditor may find themselves in violation of certain sections of the securities acts.

Firm Reaction

In general, the large public accounting firms appear to be against the SEC taking regulatory action on opinion shopping. Some firms believe there is no immediate problem.

Deloitte Haskins & Sells believes "the regulation of opinion shopping by a governmental body is not necessary. Any effective regulatory effort directed toward curbing opinion shopping must include a definition that clearly sets forth the circumstances as to when an accountant has been 'shopped' . . . Regulation could at best be implemented only on a broad policy basis, a solution we believe is inferior to the more effective self-regulation efforts of the accounting profession."

Seidman & Seidman believes the SEC should recognize the difference between abusive opinion shopping and the legitimate solicitation of second opinions. Opinion shopping "can have a pervasive adverse effect on the public's perception of the integrity of corporate reporting and the accounting profession. Therefore, it should be dealt with severely by both the accounting profession and the Commission."

Proposed Deterrants

The SEC is considering three approaches. The first, when there is a change in accountants, would require the registrant to disclose the solicitation of opinions from other accountants or to disclose if the successor accountant expressed an opinion different from the predecessor accountant. The second approach would require registrants to disclose any accountant other than the current one. The third approach would require a letter to accompany any changes in accounting principles and to name the accounting firms consulted.

Effective January 1, 1986 AICPA SECPS members must document any consultations on the application of GAAP within the firm and with predecessor firms. Peer reviewers must examine such documentation and test

compliance with the firm's policies and procedures.

The AICPA's special committee on standards of professional conduct is proposing a mandatory quality assurance review program to improve work performance. The committee also is recommending adoption of a mandatory CPE program for all members and that the existing Code of Professional Ethics be replaced with a code of professional conduct.

Conclusion

It is difficult to assess the pervasiveness of opinion shopping. Three cases have appeared in all of my reading. Many judgmental factors and not clearly defined issues seem to be involved. If the accounting profession acts quickly and deals with opinion shopping through its own regulatory bodies on a preventable basis, the SEC may be forestalled from issuing another regulation. Ω

Two New Associate Editors

Carole Cheatham, CPA, Ph.D., professor of accounting at Mississippi State University, was chosen to fill a new position of associate editor—special features created July 1, 1985 to ensure a better balance between technical and nontechnical articles in our journal. She holds a doctorate from the University of Arkansas and has served on TWCPA staff in various positions for many years.

Roland L. Madison, CPA, Ph.D., professor and chairperson of the department of accounting at John Carroll University, Cleveland, Ohio, assumed the duties of associate editor—manuscripts on January 1, 1986. He holds the Ph.D. from the University of Nebraska-Lincoln and has served on the staff of TWCPA as nonbusiness editor since 1983.

Glenda E. Ried